
Statement of Federal Financial Accounting Standards 45: Deferral of the Transition to Basic Information for Long- Term Projections

Status

Issued	July 8, 2013
Effective Date	Effective upon issuance.
Interpretations and Technical Releases	None.
Affects	• SFFAS 36, par. 45
Affected by	None.

Summary

This Statement defers for one year the transition of the statement presenting long-term fiscal projections for the U.S. government and related disclosures from required supplementary information (RSI) to basic information. Basic information is the information that is deemed essential for the financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP). RSI is information that a body that establishes GAAP requires to accompany basic information. While both categories of information are required, the auditor subjects the two categories of information to different procedures and complies with different reporting requirements under generally accepted government auditing standards (GAGAS).

When an auditor is engaged to audit an entity's financial statements, basic information as a whole is subject to testing for conformity with GAAP. RSI is unaudited, but is subject to certain procedures specified by GAGAS. These procedures include (a) inquiring of management regarding the methods used to prepare the information, (b) comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements, and (c) obtaining relevant written management representations.¹ Deficiencies in basic information affect the auditor's opinion on the financial statements taken as a whole while deficiencies in RSI do not, but are noted in the auditor's report on the financial statements.

¹American Institute of CPAs, Auditing Standards - Clarified (AU-C), Section 730.05.

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Introduction

Purpose

1. This Statement amends the effective date of the phased implementation established in Statement of Federal Financial Accounting Standards (SFFAS) 36, *Comprehensive Long-Term Projections for the U.S. Government*. When fully implemented, SFFAS 36 requires a basic financial statement in the consolidated financial report of the U.S. Government (CFR), disclosures, and related required supplementary information (RSI). To allow a phased implementation, a three-year transition period was provided during which all information was RSI. With this amendment, a four-year transition period is provided and beginning in fiscal year (FY) 2014 SFFAS 36 will require information to be presented as follows:
 - a. The basic financial statement will present for all activities:
 - i. the present value of projected receipts and non-interest spending under current policy without change,
 - ii. the relationship of these amounts to projected Gross Domestic Product (GDP), and
 - iii. changes in the present value of projected receipts and non-interest spending from the prior year.
 - b. Disclosures will explain and illustrate:
 - i. the assumptions underlying the projections,
 - ii. factors influencing trends, and
 - iii. significant changes in the projections from period to period.
 - c. RSI will explain and illustrate the projected trends in:
 - i. the relationship between receipts and spending,
 - ii. deficits or surpluses,
 - iii. Treasury debt held by the public as a share of GDP,
 - iv. possible results using alternative scenarios, and

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- v. the likely impact of delaying corrective action when a fiscal gap exists.
2. During the additional transition year - FY 2013 - all of the above information will be reported as RSI.

Materiality

3. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Standards

Scope

4. This Statement applies to the consolidated financial report of the U.S. Government (CFR).
5. This Statement amends SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*, to defer full implementation of its requirements by one year.

Amendments

6. Par. 45 of SFFAS 36 is replaced by the following:
45. The following phase-in of reporting requirements as basic information provides for full implementation for reporting periods beginning after September 30, 2013.
- a. These standards are effective for periods beginning after September 30, 2009.
- b. Information should be reported as RSI for the first four years of implementation (fiscal years 2010, 2011, 2012, and 2013).
- c. Beginning in fiscal year 2014, the required information should be presented as specified in paragraphs 12 - 42.

d. Earlier implementation is encouraged.

Effective Date

7. The requirements of this Statement are effective upon issuance.

<p>The provisions of this statement need not be applied to immaterial items.</p>

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Project History

- A1. Inclusion of audited long-term fiscal projections in U. S. federal government financial reports began in fiscal year 2006 with the statement of social insurance. A number of individual programs, such as Social Security and Medicare, provide a statement of social insurance as well as a statement of changes in social insurance amounts. In 2009, the Board issued SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*, and broadened requirements for long-term fiscal projections beyond these discrete social insurance programs. SFFAS 36 requires comprehensive projections for all government receipts and expenditures.
- A2. The Board recognized the uncertainty inherent in making the policy, economic, and demographic assumptions necessary for comprehensive projections. The standards, therefore, provide for the exercise of judgment in selecting assumptions and require information to aid the reader in understanding and considering uncertainty and alternative

outcomes. The audit community is considering the need to revise the audit guidance, including initial guidance developed for the statement of social insurance, to address such comprehensive projections.

- A3. The American Institute of CPAs (AICPA) Auditing Standards Board (ASB) organized the Prospective Information Task Force to consider the auditor's responsibility for prospective financial information. The task force charge is to consider audit guidance for both the prospective information proposed by the Governmental Accounting Standards Board (GASB) in its November 2011 preliminary views document, *Economic Condition Reporting: Financial Projections*, and the statement of long-term fiscal projections required by FASAB. Because the GASB's preliminary view is that projections would be presented as RSI, the task force does not anticipate a need for additional guidance regarding such projections. The task force is presently considering guidance for auditors and appropriate audit report language regarding the statement of long-term fiscal projections. The task force also may consider revisions to the audit report language regarding the statement of social insurance and the statement of changes in social insurance amounts.
- A4. To allow the Prospective Information Task Force time to develop needed guidance, the Board considered amending SFFAS 36 to extend by one year the transition period established for eventually presenting long-term fiscal projections as basic information in the consolidated financial report of the U. S. government. During the extended transition period, all the required information would continue to be provided as RSI. The Board released an exposure draft (ED), entitled *Deferral of Transition to Basic Information for Long-Term Projections*, on November 20, 2012, with comments requested by January 31, 2013.

Responses to the Proposal

- A5. The Board received 13 response to the exposure draft from the following sources:

Table 1.0 - Types of Respondents

	Federal (Internal)	Non-federal (External)
Users, academics, others		4
Auditors	2	
Preparers and financial managers	7	

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- A6. The Board considered responses to the exposure draft at its February 27, 2013, public meeting. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised.
- A7. Of the 13 responses, 11 supported the proposed extension. Of the remaining two, one offered no comment and the other suggested the Board seek input from citizens and particularly younger taxpayers. The Board welcomes and encourages the input of citizens and will consider ways to reach more citizens.

Board Approval

- A8. This Statement was approved unanimously. Written ballots are available for public inspection at the FASAB's offices.

Appendix B: Audit Considerations Regarding Basic Information and RSI

This summary table serves as an aid to the reader in understanding the implications of the deferral. It is not complete as it does not present in detail the auditing standards established by the American Institute of CPAs. Also, it has not been updated since its original issuance.

	Basic Information	RSI
Is the information required to be in the federal financial report? Source: FASAB, Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, par. 73C and AICPA Auditing Standards as Clarified (AU-C) 730.04	Yes	Yes
Is the information deemed essential if the financial statements are to "present fairly" in conformity with GAAP? Source: FASAB SFFAC 2, par. 73B and 73C, and AICPA AU-C 730.04	Yes	No
What are the objectives of the auditor regarding basic information and RSI?	The purpose of an audit is to provide financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework, which enhances the degree of confidence that intended users can place in the financial statements. ...As the basis for the auditor's opinion, GAAS require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high, but not absolute, level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. Reasonable assurance is not an absolute level of assurance because	The objectives of the auditor when a designated accounting standard setter requires information to accompany an entity's basic financial statements are to perform specified procedures in order to a. describe, in the auditor's report, whether required supplementary information is presented and b. communicate therein when some or all of the required supplementary information has not been presented in accordance with guidelines established by a designated accounting standard setter or when the auditor has identified material modifications that should be made to the required supplementary information for it to be in accordance with guidelines established by the designated accounting standard setter. (AICPA, AU-C 730.03)

	<p>there are inherent limitations of an audit that result in most of the audit evidence, on which the auditor draws conclusions and bases the auditor's opinion, being persuasive rather than conclusive.</p> <p>(AICPA, AU-C 200 .04 and 200.06)</p>	
What audit fieldwork is required?	Audit procedures in accordance with applicable auditing standards and requirements. ²	Limited procedures pursuant to AU-C 730.05-.06.
What is to be provided in the auditor's report	<p>When expressing an unmodified opinion on financial statements, the auditor's opinion should state that the financial statements present fairly, in all material respects, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, in accordance with the applicable financial reporting framework. Also, the auditor's opinion should identify the applicable financial reporting framework and its origin.</p> <p>(AICPA AU-C Section 700.35 and .36)</p>	<p>Statement that the auditor has applied certain limited procedures and a statement that the auditor does not express an opinion or provide assurance on the information.</p> <p>(AICPA, AU-C 730-.08-.09)</p>
What audit report mention is required if the information is missing or not prepared in conformity with guidelines?	<p>Include a Basis for Modification Paragraph in the Report:</p> <p>If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor should include in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor should so state in the basis for modification paragraph.</p> <p>(AICPA AU-C 705.18)</p>	<p>Include a statement that management has omitted the information and the information is required and is an essential part of financial reporting. Also, the auditor would state that the opinion on the basic financial statements is not affected by the missing information.</p> <p>(AICPA AU-C 730.08e)</p> <p>In addition, if the measurement or presentation of the information departs materially from the prescribed guidelines, the auditor would state that although the opinion on the basic financial statements is not affected, material departures from the</p>

²The phrase "applicable auditing standards and requirements" is used to refer to auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor should include in the basis for modification paragraph an explanation of how the disclosures are misstated.

prescribed guidelines exist and the auditor would describe the departures.

(AICPA AU-C 730.08f)

(AICPA AU-C 705.19)

If there is a material misstatement of the financial statements that relates to the omission of information required to be presented or disclosed, the auditor should describe in the basis for modification paragraph the nature of the omitted information; and include the omitted information, provided that it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

(AICPA AU-C 705.20)

Modify the Auditor's Opinion:

A qualified opinion states that except for the effects of the matter(s) described in the basis for qualified opinion paragraph, the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

(AICPA AU-C 705.24)

An adverse opinion states that the financial statements are not presented fairly in accordance with the applicable financial reporting framework.

(AICPA AU-C 705.25)

Source: The Federal Accounting Standards Advisory Board developed this summary but does not establish audit standards. For guidance regarding auditing standards, please refer to the source documents identified in the summary.

Appendix C: Abbreviations

AICPA	American Institute of Certified Public Accountants
ASB	Auditing Standards Board
AU-C	Auditing Standards - Clarified
CFR	Consolidated financial report of the U.S. government
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GASB	Governmental Accounting Standards Board
GDP	Gross Domestic Product
OMB	Office of Management and Budget
RSI	Required supplementary information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

Appendix D: Glossary

Basic Financial Statements

As used in SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, the basic financial statements are those on which an auditor would normally be engaged to express an opinion. The term “basic” does not necessarily mean that other financial information not covered by the auditor’s opinion is less important to users than that contained in the basic statements; it merely connotes the expected nature of the auditor’s review of, and association with, the information. The basic financial statements in financial reports prepared pursuant to the Chief Financial Officers Act, as amended, are called the “principal financial statements.” The Form and Content of these statements are determined by OMB. (see also Principal Financial Statements)

Basic Information

Information that is essential for financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).

Required Supplementary Information

Information that a body that establishes GAAP requires to accompany basic information. When an auditor is engaged to audit an entity’s financial statements, basic information is subject to testing for fair presentation in conformity with GAAP. However, RSI for federal entities is unaudited but subject to certain procedures specified by Generally Accepted Government Auditing Standards for RSI.